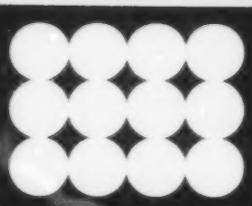


NEWFOUNDLAND
LIQUOR
CORPORATION

ANNUAL REPORT

93-02657/

NEWFOUNDLAND
LIQUOR
CORPORATION

Honorable Dr. Hubert Kitchen
Minister of Finance
Government of Newfoundland & Labrador
Confederation Building
St. John's, Newfoundland
A1B 4J6

Dear Dr. Kitchen:

I am pleased to submit the 17th annual report of the Newfoundland Liquor Corporation.

The report summarizes the Corporation's activities during the fiscal year ending March 31, 1990, and outlines a financial comparison with the previous year.

We gratefully acknowledge the contribution of all the Corporation's employees whose positive efforts contributed to our progress during the past year.

Yours very truly,

DOUGLAS M. CHAFE, F.C.M.A.
President.

P.O. BOX 8750, STATION "A", KENMOUNT ROAD, ST. JOHN'S, NEWFOUNDLAND A1B 3V1
•TELEPHONE (709) 754-1100 TELEX 016-4923 FAX 754-0321•

FINANCE

During the fiscal year ended March 31,1990, the Corporation realized a net income of $79,398,783, a decrease of $354,130 from the previous year. This income was derived from two sources:

1. $39,557,680 from the sale of spirits, wines and beer through Corporation liquor stores and liquor agency stores; and,

2. $39,841,103 through the collection of a Corporation markup on local beer.

Corporation liquor store and agency store operations resulted in sales of $95,668,214, an increase of $1,707,733 over the previous year. Income from beer commissions totalled $39,841,103, an increase of $40,389 over the previous year. Operating and administrative expenses for 1989-90 totalled $14,773,733, an increase of $1,297,257 over the previous year.

STORE OPERATIONS

The availability of a wide range of spirits, wines and beers is provided through a retail network of thirty-seven liquor stores and fifty-five agency stores. Upgrading to improve customer service and convenience continued during the year, with major renovations to the Topsail Road store in St. John's and the Stephenville store.

An agreement was reached to relocate the Churchill Square store in St. John's to a new shopping complex near its present site. The Corner Brook Plaza store will also be expanded and relocated within its present shopping centre because of the addition of several new retail businesses which required moving existing tenants.

The larger, more attractive Mount Pearl store opened April 21, 1989, and the easier access and egress for parking, plus extended hours of opening, resulted in significant sales growth in excess of that anticipated from sales transfers from other outlets.

Trial extensions of business hours were put in place in Gander, Harbour Grace and Lewisporte to generate data with which to evaluate overall hours of operation in the coming year.

The voluntary early retirement program greatly accelerated the normal rate of staff turnover, and at the store manager level led to the appointment of seven new managers, representing almost twenty percent of the stores. This situation made staff training even more critical, and improved management skills were emphasized for all store managers and assistant managers through seminars which focused on labor relations, operation of and monitoring of store budgets, merchandising, and improved customer service.

One half of the complement of store managers attended a week long Supervisory Management Skills Training Course developed in conjunction with the Centre For Management Development at Memorial University. It is anticipated that all store management personnel will have the opportunity to participate in this program over the next few years. Staff training programs on the detection and prevention of shoplifting were conducted by the R.C.M.P. in various locations throughout the province.

While sales declines were experienced provincially, the Corporation was able to keep these declines below the levels being recorded by other liquor boards in Canada, despite the increased smuggling from St. Pierre which affected the sales in the Corporation stores and agencies on the South Coast of the province. Extensive investigations led to the subsequent apprehension of suspected smugglers by the R.C.M.P. in late 1989.

Product promotions, in-store displays and the introduction of new brands continued to be very successful, with encouraging growth being achieved in the Spirit Cooler and Australian Wine categories. The Corporation's portfolio of Speciality Wines was widened considerably with eighty out of one hundred and eighty new listings falling in this category, which showed a sales increase of thirty percent as consumers discovered excellent value for money from the wider selection.

To assist consumers in locating products within the stores creative signage was introduced for categories in many of the larger stores, and will be extended to other outlets in the future. Experiments to evaluate customer acceptance and usage of consumer information on wines is being conducted with a program of providing reference books and videos on a no-charge loan basis.

The German Wine Academy and several Australian and Californian suppliers sponsored tastings for Corporation personnel and selected members of the general public. The Corporation's wine consultant conducted tastings for the public in Clarenville, Marystown, Grand Falls and Stephenville. He also conducted a tasting of 1985 and 1986 vintage first growth wines, and introduced the Beaujolais Nouveau to staff, customers and media on its release in November.

A test market was designed and implemented for the 200 ml spirit size for selected products, and plans were made to introduce the 1.75 litre spirit package for the leading products in each category, to provide consumers with a broader choice in making their selections.

Monitoring of product quality resulted in the removal of several brands from the market again this year - either due to product deterioration or product/package defects. Prompt action by suppliers, Corporation staff, and the efficient exchange of information on product defects between Canadian Liquor Jurisdictions, minimized any potential problems for consumers.

PRODUCTION & DISTRIBUTION

Production of locally bottled products for other suppliers and for the Corporation's own brands was 127,295 cases, representing an increase of 6% over last year's production.

Sales of locally produced brands of spirits and wines to other provinces matched last year's sales of 43,000 cases, but increased their share of the total Canadian market, which declined 5%. This increased share was due in part to extra support given to Corporation brands through promotions at trade shows held in Ottawa, Toronto, Edmonton, and Vancouver.

One new product was added to the Corporation's portfolio with the introduction of "Gold Ribbon Deluxe" whisky in June. This is the first whisky with the Corporation's own patented brand name and is produced from four-year-old Canadian whisky.

Plastic bottles in the popular 375 ml size were produced for the first time for Corporation brands helping to reduce costs of freight and breakage, while providing the customer with added convenience. This year also saw the re-introduction of the 200 ml size (formally called the "pup" size) for test market purposes.

Corporation brands represented 12.3%, or 50,000 cases, of the local spirit market, exceeded only by one other supplier with a 12.5% share. Corporation brands provide consumers with quality products at economical prices, while contributing increased profits over national brands with the use of local labor.

In addition, a further 10,000 cases of locally bottled franchised products are sold in the local market. Negotiations are in progress to add other products to the portfolio of franchised brands.

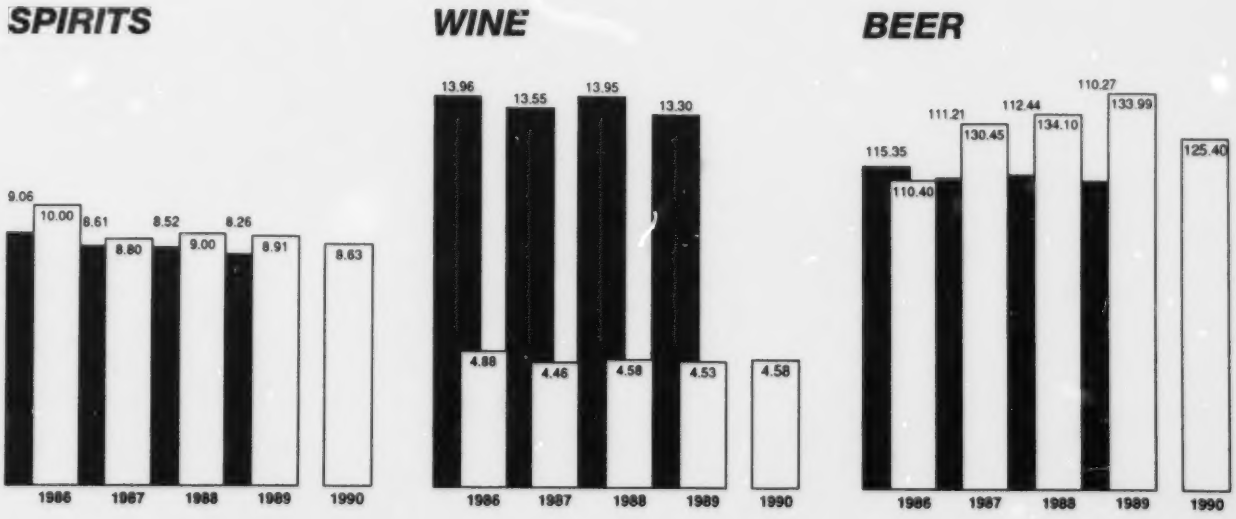
Several representatives from Canadian Trade Commissions toured the bottling plant and tasted Corporation brands with a view to stocking "Screech" and "Newmans Port" in their embassies.

The Corporation cooperates with other liquor jurisdictions in the Atlantic Provinces on a program to consolidate shipments of low volume products from distant countries such as Greece, Spain, Portugal, Chile, Mexico, China, and Russia in order to reduce freight costs so that products from these countries are more affordable to local consumers.

The central warehouse continues to service all customers efficiently, and with the cooperation of the Product Supply Department and Store Operations, this year received a total of 567,000 cases of assorted alcoholic beverages and shipped 547,000 cases to liquor outlets in the province and every liquor board in Canada.

Per Capita Consumption
Litres
Fiscal year ended March 31, 1990
By population 19 years of age and over

Provincial Average
National Average



HUMAN RESOURCES

In the early part of this year, the Human Resources Department was active in providing information and counselling to employees concerning the Voluntary Early Retirement Program. A total of 19 employees retired under the program.

The Human Resources Department evaluated a number of Payroll and Human Resource Information System computer software packages during this year. At year's end, two particular packages had been selected and modification design, testing and implementation will take place in 1990-91. These packages will enable the Corporation to process payroll completely in-house, utilizing our own mainframe computer. The Human Resource Information System will allow ready access to information on staffing, benefits and other human resource functions.

The labor relations area was relatively quiet this year, with the Collective Agreement expiring on March 31,1990. Preparations were made for bargaining scheduled to commence early in April, 1990. There were four grievances during the 1989-90 period, three of these were resolved in the early stages and one was referred to arbitration.

Continued training and education activities occurred through seminars and our tuition reimbursement program. The Centre for Management Development presented a one week supervisory management course to Managers from Store Operations and other departments. This course was well received and plans have been made to offer it next year for those who have not yet participated.

INTERNAL AUDIT

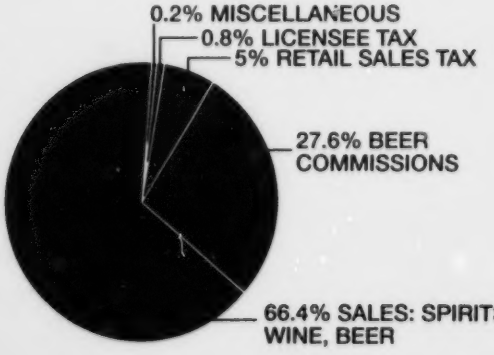
The Internal Audit Department, answering directly to the President and with a staff of seven, discharges its responsibility so that management will better achieve their prime objective of an efficient and effective operation. To meet this objective the Department employs modern auditing techniques utilizing the latest technology and visits all 37 stores and 55 agency stores according to a plan based on need and priority, as well as examining other Departmental areas of concern.

The Internal Audit Department continues to analyze the Corporation's systems testing for compliance as well as making recommendations for improvements. Wherever possible, the Department has assisted the Auditor General's Department with their annual audit in the preparation, checking and verification of working papers, thus reducing audit time and providing the benefit of Internal Audit's knowledge of the Corporation. It has also been involved at the development stages of various projects throughout the Corporation to ensure required control features are in place and to add an impartial opinion which crosses all dimensions of the Corporation's activities.

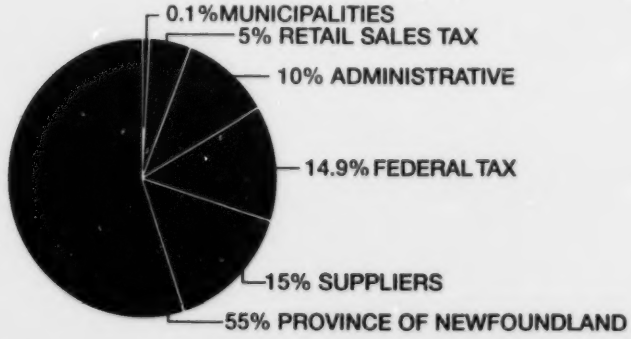
ACKNOWLEDGMENT

The Corporation gratefully acknowledges the effort and cooperation of the employees, and the support of the Board of Directors.

SOURCE OF REVENUE



APPLICATION OF REVENUE



AUDITOR'S REPORT

To the President and Members
Newfoundland Liquor Corporation
St. John's, Newfoundland

I have examined the balance sheet of the Newfoundland Liquor Corporation as at 31 March 1990 and the statements of income, retained earnings and changes in cash position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at 31 March 1990 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J. F. McGrath, C.A.
Auditor General

St. John's, Newfoundland
9 August 1990

Balance Sheet, March 31, 1990

Assets

Current Assets	1990	1989
Cash	$4,400,441	$6,156,845
Accounts receivable (note 2)	593,345	674,070
Beer commissions receivable	3,001,126	3,863,134
Inventories, at cost (Note 3)	16,933,532	14,157,923
Prepaid expenses	285,511	220,649
Total current assets	25,213,955	25,072,621
Fixed assets, at cost less accumulated depreciation (Note 4)	5,380,563	5,030,031
Assets under capital lease, at cost less accumulated amortization of $256,436 (1989-$192,561)	62,301	126,176
Other assets, at cost less accumulated amortization (Note 5)	387,429	495,987
Total assets	$31,044,248	$30,724,815

Liabilities and Retained Earnings

Current liabilities		
Accounts payable	$3,338,216	$3,599,882
Accrued liabilities	4,351,569	3,690,796
Current portion of obligation under capital lease (Note 6)	69,450	78,457
Current portion of long-term debt (Note 7)	400,000	400,000
Total current liabilities	8,159,235	7,769,135
Obligation under capital lease (Note 6)	-	69,450
Long-term debt (Note 7)	2,700,000	3,100,000
	10,859,235	10,938,585
Retained earnings		
Due to the Province of Newfoundland	20,185,013	19,786,230
Total liabilities and retained earnings	$31,044,248	$30,724,815

See accompanying notes

Signed on behalf of the Board

President

Director

Statement of Retained Earnings

For the Year ended March 31, 1990

	1990	1989
Balance, beginning of year	$19,786,230	$18,033,317
Net income for the year	79,398,783	79,752,913
	99,185,013	97,786,230
Payments to the Province of Newfoundland	79,000,000	78,000,000
Balance, end of year	$20,185,013	$19,786,230

See accompanying notes

Statement of Income

For the Year Ended March 31, 1990

	1990	1989
Sales	$95,668,214	$93,960,481
Cost of goods sold		
Inventory, beginning of year	14,157,923	14,366,027
Purchases	45,527,824	41,656,136
Cost of goods available for sale	59,685,747	56,022,163
Less: Inventory, end of year	16,933,532	14,157,923
	42,752,215	41,864,240
Gross profit	52,915,999	52,096,241
Other operating income		
Commission on licensee purchases	1,181,964	1,180,019
Miscellaneous	233,450	152,415
	1,415,414	1,332,434
	54,331,413	53,428,675
Administrative and operating expenses (Schedule 1)	14,773,733	13,476,476
Net income from liquor store operations	39,557,680	39,952,199
Commission revenue on sale of beer	39,841,103	39,800,714
Net income for the year	$79,398,783	$79,752,913

See accompanying notes

Statement of Changes in Cash Position

For the Year Ended March 31,1990

	1990	1989
Cash provided by (used in) operating activities		
Net income from liquor store operations	**$39,557,680**	$39,952,199
Commission revenue on sale of beer	**39,841,103**	39,800,714
Add: Items of non-cash nature		
Depreciation	**514,706**	373,121
Amortization	**201,220**	409,422
Loss (gain) on disposal of fixed assets	**1,280**	(556)
Changes in non-cash working capital	**(1,507,638)**	30,101
	78,608,351	80,565,001
Deduct: Payments to the Province of Newfoundland	**79,000,000**	78,000,000
	(391,649)	2,565,001
Cash provided by (used in) financing activities		
Proceeds from disposal of fixed assets	**646**	2,028
Proceeds from long-term debentures	**-**	2,500,000
Payments under capital lease	**(69,450)**	(77,700)
Repayments of long-term debentures	**(400,000)**	(400,000)
	(468,804)	2,024,328
Cash provided by (used in) investing activities		
Additions to fixed assets	**(867,164)**	(3,225,023)
Additions to other assets	**(28,787)**	(236,951)
	(895,951)	(3,461,974)
Increase (decrease) in cash flow during the year	**(1,756,404)**	1,127,355
Cash, beginning of year	**6,156,845**	5,029,490
Cash, end of year	**$4,400,441**	$6,156,845

See accompanying notes

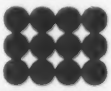
Schedule of Administrative and Operating Expenses

For The Year Ended March 31,1990

	1990	1989
Salaries and employee benefits	$8,269,659	$7,196,675
Rent	762,264	737,334
Freight to stores	279,545	273,557
Agency store commissions and expenses	1,962,037	1,921,243
Municipal and school tax	156,010	193,300
Travel	125,304	132,943
Heat and light	299,812	303,067
Cleaning	202,308	178,487
Communications	134,799	144,313
Advertising	15,064	14,299
Computer services	45,697	43,685
Directors' fees and expenses	8,245	8,025
Interest and bank charges	51,102	44,762
Motor vehicle expenses	3,806	3,322
Consultants' fees	24,359	27,257
Security	70,353	67,442
Store supplies and wrapping	101,801	97,422
Stationery and office supplies	129,376	119,067
Postage	32,787	35,252
Repairs and maintenance	253,926	234,101
Inventory breakage and shortage	107,108	91,093
Marketing	385,691	226,810
Dues and subscriptions	12,785	9,586
Insurance	46,595	43,300
Professional fees	32,288	41,549
Depreciation	475,194	335,162
Amortization	191,964	409,422
Uniforms	52,517	53,126
Staff recruitment	15,317	16,602
Staff training	101,876	73,639
Miscellaneous	29,445	23,399
Labor negotiations and grievances	4,573	13,058
Loss (gain) on disposal of fixed assets	1,280	(556)
Bad debt expense	3,635	15,910
Interest on long-term debt	385,211	348,823
	$14,773,733	$13,476,476

Notes to Financial Statements

Year Ended March 31,1990



1. Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

(a) Fixed assets are capitalized at cost at the time of acquisition. Depreciation is recorded over the expected useful life of the asset on a straight line basis at the following rates:

Buildings	5%
Store equipment and fixtures	20%
Motor vehicles	33 1/3%
Office furniture and equipment	10% and 20%
Plant and warehouse equipment	20% and 33 1/3%

Depreciation is recorded on a monthly basis with depreciation of an asset commencing in the month of acquisition and ending in the month prior to disposal.

The Blending Department's share of depreciation and amortization expense amounting to $48,768 ($37,959-1989) is allocated to cost of goods sold.

(b) Leasehold improvements are amortized on a straight line basis over the terms of the individual leases which range from 1 to 20 years.

Following is a schedule of amortization of leasehold improvements by location:

	1990	1989
Head office	**$12,011**	$188,595
Other locations	**116,970**	148,588
	$128,981	$337,183

(c) Interest in leased land as described in Note 5 is amortized on a straight line basis over the initial 30 year term. The amount charged to operations in 1990 was $8,364 ($8,364-1989).

(d) The equipment under the capital lease is amortized on a straight line basis over the term of the lease. The amount charged to operations in 1990 was $63,875 ($63,875-1989).

(e) Federal taxes on inventory held in bond at year end are included in head office inventory and related liability accounts. As at 31 March the following amounts were included in accrued liabilities:

	1990	1989
Customs duty	**$2,251,587**	$1,680,372
Excise duty	**977,969**	902,071
Federal sales tax	**305,658**	360,404
	$ 3,535,214	$2,942,847

(f) The Corporation is a Crown Corporation and is therefore not subject to either Provincial or Federal income taxes.

2. Accounts Receivable

	1990	1989
Trade	**$511,241**	$540,609
Claims	**74,285**	115,792
Other	**15,337**	25,318
	600,863	681,719
Less: Allowance for doubtful accounts	**7,518**	7,649
	$593,345	$674,070

3. Inventories

	1990	1989
Raw materials	**$1,087,577**	$1,243,937
Head office inventory	**5,419,890**	4,599,185
Branch stores inventory	**5,145,455**	4,691,274
Stock in transit	**1,696,688**	846,112
Finished goods	**3,528,461**	2,777,415
Work in process	**55,461**	-
	$16,933,532	$14,157,923

4. Fixed Assets

	Cost	Accumulated Depreciation	Net Book Value 1990	Net Book Value 1989
Land	$1,162,841	-	**$1,162,841**	$1,162,841
Buildings	4,380,933	1,357,966	**3,022,967**	3,009,899
Store equipment and fixtures	1,374,882	744,595	**630,287**	412,822
Motor vehicles	66,383	23,937	**42,446**	1,273
Office furniture and equipment	729,461	526,013	**203,448**	196,431
Plant and warehouse equipment	1,479,613	1,161,039	**318,574**	246,765
	$9,194,113	$3,813,550	**$5,380,563**	$5,030,031

5. Other Assets

	Cost	Accumulated Amortization	Net Book Value 1990	Net Book Value 1989
Leasehold improvements	$2,842,711	$2,629,264	**$213,447**	$313,641
Leased land	248,925	74,943	**173,982**	182,346
	$3,091,636	$2,704,207	**$387,429**	$495,987

6. Obligation Under Capital Lease

The following is a schedule of future minimum lease payments under the capital lease expiring 12 January 1991 together with the balance of the obligation under capital lease:

Year ending 31 March

1991	$74,190
Less: Amount representing interest	4,740
Current portion	$69,450

7. Long-Term Debt

	1990	1989
A 12 1/8% $2,000,000 debenture, issued to the National Trust Company Limited as Trustees for Prudential Insurance Company of America and transferred to Canada Trust, repayable in ten equal consecutive annual principal instalments of $ 200,000 commencing on 30 June 1984 and semi-annual interest payments on 30 June and 30 December, commencing 30 December 1983. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	**$800,000**	$1,000,000
An 11 7/20%, $1,500,000 debenture, issued to Brant Investments and held by National Trust Company Limited, repayable in fifteen equal consecutive annual principal instalments of $100,000 commencing on 1 November 1989 and semi-annual interest payments on 1 May and 1 November, commencing on 1 May 1989. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	**$1,400,000**	$1,500,000
A 10 3/4%, $1,000,000 debenture, issued to Brant Investments and held by Royal Trust Company, repayable in ten equal consecutive annual principal instalments of $100,000 commencing on 15 June 1989 and semi-annual interest payments on 15 December and 15 June, commencing 15 December 1988. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	**900,000**	1,000,000
	3,100,000	3,500,000
Less: Current portion	**400,000**	400,000
	$2,700,000	$3,100,000

8. Related Party Transactions

(a) The Corporation is leasing office and warehouse space rent free from a Crown Corporation, B.L.C. Building Corporation Limited; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

(b) The Corporation is leasing retail space for its Bell Island branch rent free from the Department of Works, Services and Transportation; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

9. Lease Commitments

The Corporation has leases on file with terms ranging from 1 to 20 years covering retail outlets. Annual lease obligations during the next 5 years are as follows:

1991	$475,368
1992	342,946
1993	248,507
1994	208,961
1995	124,352
	$1,400,134

10. Pensions

The Public Service (Pensions) (Newfoundland Liquor Corporation) Regulations, 1974, made the Corporation and its staff subject to The Public Service (Pensions) Act with effect from 26 June 1973. Pension dues deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland Pooled Pension Fund from which pensions will be paid to employees when they retire.

BOARD OF DIRECTORS

Douglas M. Chafe, F.C.M.A.
President

Keith Griffiths
Vice-President, Operations

A.L. White, P. Eng.
Director
(Representing Government of Newfoundland,
Treasury Board)

Gilbert C. Gill, C.A.
Director
(Representing Government of Newfoundland,
Department of Finance)

Edward White
Director
(Chairman, Newfoundland Liquor Licensing Board)

Charles W. White, Q.C.
Director

Edward P. Poole, Q.C.
Director

Brenda Billard
Director